

Proposal: 1748 (AG15) Regulation II - Debit Card Interchange Fees and Routing

Description:

Comment ID: 140836

From: Henderson State Bank, Kent M. Franzen

Proposal: 1748 (AG15) Regulation II - Debit Card Interchange Fees and Routing

Subject: R-1748; Regulation II - Debit Card Interchange Fees and Routing

Comments:

NONCONFIDENTIAL // EXTERNAL

August 5, 2021

Ann E. Misback, regs.comments@federalreserve.gov

Secretary

Board of Governors of the Federal Reserve

20th Street and Constitution Ave.

Washington, DC 20551

RE: Proposed changes to Regulation II - Debit Card Interchange Fees and Routing (Docket No. R-1748, RIN 7100-AG15)

Dear Ms. Misback:

Henderson State Bank (HSB) wishes to express our thanks for the opportunity to comment on the Board of Governors of the Federal Reserve System's ("Board") proposed revision to Regulation II (Debit Card Interchange Fees and Routing). HSB is a small community bank of about \$270 Million in assets serving our largely farm and farm related clients. HSB has significant concerns regarding proposed changes to Regulation II. I will try to be concise in listing these concerns as bullet points below;

1. Expansion of the routing requirement to all card-not-present transactions and mandating that PINless transactions be accepted places a cap on our revenue from such transactions.
2. Expansion of the routing requirement to all card-not-present transactions and mandating that PINless transactions be accepted will certainly result in extensive and recurring costs to comply.
3. This expansion also reduces flexibility for banks to mitigate fraud costs and we believe will increase fraud expense for small card issuers such as HSB.
4. The proposed rule will make substantial changes in how HSB handles debit card transactions.
5. Burden for compliance with the "Durbin Amendment" will be shifted to HSB from merchants (largely the big box stores) forcing these specified new rights upon HSB.
6. It does not appear that HSB can ensure that these new conditions are met in a card system
7. where all we can control are our own cards, lacking knowledge or control over the merchants' transaction choices.
8. It is an unreasonable technical expectation that small community banks can issue cards that are guaranteed to support every merchant across the country who insists on an unsupported transaction configuration.
9. The merchant may choose a debit network and transaction type that lacks security and the merchant bares limited responsibility, leaving the Bank to pick up the bill, especially in PINless transactions, which consumers assume to be signature transactions, but are entirely different.
10. PINless transactions were not common place when the Durbin Amendment was passed, so it is unclear as to how they can be mandated upon card issuers. By forcing community banks such as HSB to take these less protected transactions, the proposed rule goes beyond the merchant routing requirements under the Durbin Amendment.
11. HSB is concerned that the proposed rule would further suppress competition among debit networks. The rule could fuel consolidation among the debit networks, reducing choices for issuers and

small businesses. We have already experienced significant vertical consolidation resulting in the dissolution of Networks in Nebraska.

This proposal is fundamentally unfair to community banks and should be withdrawn. Thank you for your consideration of HSB's position on the proposed rule.

Respectfully,

Kent M. Franzen VP
Henderson State Bank, PO Box 605, Henderson NE 68371
Phone 402-723-4441

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